

## Trinity University Digital Commons @ Trinity

---

Economics Faculty Research

Economics Department

---

2014

# Adam Smith and Entangled Political Economy

Maria Pia Paganelli

Trinity University, [mpaganel@trinity.edu](mailto:mpaganel@trinity.edu)

Follow this and additional works at: [https://digitalcommons.trinity.edu/econ\\_faculty](https://digitalcommons.trinity.edu/econ_faculty)



Part of the [Economics Commons](#)

---

### Repository Citation

Paganelli, M.P. (2014). Adam Smith and Entangled Political Economy. In S. Horwitz & R. Koppl (Eds.), *Advances in Austrian Economics* (Vol. 18, pp. 37-54). Bingley, United Kingdom: Emerald. doi: 10.1108/S1529-213420140000018002

This Article is brought to you for free and open access by the Economics Department at Digital Commons @ Trinity. It has been accepted for inclusion in Economics Faculty Research by an authorized administrator of Digital Commons @ Trinity. For more information, please contact [jcostanz@trinity.edu](mailto:jcostanz@trinity.edu).

## **Adam Smith and Entangled Political Economy**

Maria Pia Paganelli

Trinity University

maria\_paganelli@yahoo.com

With this paper I suggest that Adam Smith would be more appropriately described as an entangled political economist rather than a traditional/orthodox political economist.

Political economy is a term with a long history and a variety of meanings (Besley 2007). Today it seems to be limited to a relatively reductionist approach which tends either to maintain a strict division between politics and economics or to collapse politics into economics (more below).

Alternative definitions and research programs are increasingly emerging to integrate, complement, or substitutes for the limits of today's political economy. For example, Boettke and Lopez (2002) call for an integration of Public Choice and Austrian research programs to generate a "unification of social sciences on the foundation of a rational choice model" (112). Their approach is innovative and fruitful, but it seems limited to relax, at the same time, both the assumptions of benevolence (as Public Choice) and omniscience (as the Austrians) from traditional models. Boettke and Coyne (2003), focusing on the role of entrepreneurship, promote the role of institutions in understanding economic development. Yet they see a clean causal-relation between entrepreneurs and development, that entrepreneurs are not the cause of development but their consequence. Perssen and Tabellini (2004) expand the research agenda to include the effects of constitutions on economic performance and other economic policy outcomes. But here there is an analysis only of the unidirectional relationship between the constitution and the economy. And Besley (2007) goes as far as to call for a New Political Economy that resembles the original political economy of the 18<sup>th</sup> century. But his goal is to pick—picking institutions to implement and sustain good policies, as opposed to picking good policies. Picking institutions to achieve a preferred outcome implies a clear static causal relationship with no unintended consequences.

While all these works contribute to the dismantlement of discipline barriers—barriers which can be quite useful in developing specialized knowledge but also can be quite limiting by preventing

communications and trade across disciplines—the idea of Entangled Political Economy takes the dismantlement of severed disciplines a step or two forward. The following section describes how Richard Wagner begins the exploration of Political Economy as an entanglement of policy and economy. Being entangled implies that a unidirectional casual-relationship becomes an ineffective explanation of social phenomena. It also implies that relaxing assumptions is necessary but not sufficient and that picking institutions becomes more challenging as institutions are constantly changing and often in unplanned directions.

As shown in the third section, the idea of Entangled Political Economy is close to the concept of economics that Adam Smith presents, a concept which was not shaped by discipline barriers, which were still inexistent in the 18<sup>th</sup> century.

Looking at how Adam Smith works within a system of entangled political economy is relevant not because of the authority he may impose on it, but because it is an additional example of the fruitfulness of the entangled approach compared to the traditional one. Adam Smith, indeed, analyzes the nature and causes of the wealth of nations by analyzing the interaction of the economy with politics, ethics, and the law. Similarly Smith presents each of these systems as a network of relations with all the other systems. Seeing Smith as an entangled political economist allows us to expand the domain of the analysis. In the subsections of the third part of the paper, we can therefore see how Smith contributes to the literature by offering an analysis of the entanglements of politics and economics when society faces a positive shock, integrating the current literature of entanglements of politics and economics during a negative shock. Additionally, Smith presents analyses of the entanglements of the economy not just with polity, but also with other systems of behaviors such as the law and morality.

Concluding remarks end the paper suggesting that Adam Smith may therefore help expanding the horizon of the entangled political economy analysis and the explanatory powers of economics. And the more extensive the analysis, the more extensive is the call to rethink not just how we do political economy, but how we do economics in general. Thinking in terms of entangled political economy may improve our understanding of the economy, of the polity, and of human behavior in general.

The entangled political economy approached proposed by Wagner is here taken as given. I superimpose Adam Smith to Wagner's framework to expand its explanatory powers. Let us then start with a description of the Wagnarian Entangled Political Economy approach.

### Political Economy as political plus economy vs political entangled with economy

Economics tends to isolate itself. In its worst moments, it abandons interactions with other social sciences, and forms self-contained structures. The idea that interactions with other disciplines should be avoided comes from the idea that these interactions could compromise its purity.

On occasions, interdisciplinary contacts take the form of economic imperialism, where economics takes over other disciplines and dominates them rather than integrate with them. Or, when there are interdisciplinary bridges, they often are simply bridges, meaning that the two bridged disciplines remain separate and distinct. Political economy, for example can be described not necessarily as an integrated merger of the polity and the economy but rather as a connection, a going back and forward, between these two separate realms. Analyses in political economy are such that “market equilibrium is established theoretically prior to and independently of political action, with subsequent political intervention establishing an alternative equilibrium” (Smith, Wagner, and Yandle 2011, p. 46).

Richard Wagner looks at the possibilities of an entangled political economy instead. Wagner recognizes that the analysis of the interactions of politics and economics in the traditional political economy is mostly like a bridge across two distinct and not permeable disciplines. As relevant and fruitful as it is, this analysis may be integrated with a different approach, increasing the explanatory power of the theory. Indeed “The conventional polarization between market and state leads theoretical thought astray by ignoring the ecological nature of human enterprise. A society contains an entangled set of enterprises, some commercial and others political. Those enterprises don’t operate independently of one another in separate ponds of activity. They are entangled in a complex human ecology” (Wagner 2012 p. 125).

For Wagner, the relation between politics and economics is not a one way street leading economics through politics. It is a complex network of reciprocal influences of economics and politics upon each other. It is an entangled and complex relation. To use his words: “Orthodox political economy pursues a sequential mode of analysis where people write the first draft of the manuscript of social life through their efforts in the precincts of market and civil society, with the state subsequently revising and polishing the manuscript. The alternative, polycentric orientation leads to a coeval or

simultaneous mode of analysis, in which the manuscript of social life is generated through continual interaction among participants within the precincts of market, state, and civil society, as Eusepi and Wagner (forthcoming b) explore” (Wagner 2012 p. 130).

Thus, within an analysis, the dominant tendency is often to go from economy to polity, or in general from the economy to another system of behavior, to analyze how the economy affects the other system. Analyses going in the opposite direction, how other systems may affect the economy, are also possible but not as frequently offered. While the traditional political economy approach reflects these tendencies, “In contrast, our framework of entangled and simultaneous political economy, as sketched in (Wagner 2006; Wagner 2007), highlights a third possible option: the recent disturbance is a systemic feature of a constitutional system of entangled political economy” (Smith, Wagner, and Yandle 2011, p. 46), meaning that it is a continuous and complex interactions between the polity and the economy generate changes.

Another consequence of the adoption of the entangled view of political economy is the realization that the consequences of these changes are, often unpredictable, and often unintentional. The consequences of human actions may not always be intentional. This sounds, misleadingly, like a half-new point mostly because economists are generally accustomed to the idea of unintended consequences. Yet, As Wagner (2012) reminds us, this approach seems to be limited to economic rather than expand also to political economy. Indeed, in our traditional analysis of political economy, we generally think that the outcome of a political action is the result of a specific plan and intended consequences. This is a different approach from our general understanding of economic actions having a purpose for the individual actor but not an intended social outcome. So, while we are comfortable to work within a framework of “result of human action but not human design” in economics, there is a tendency to adopt a “result of human action and human design” approach while we analyze politics and results in traditional political economy.

But as Wagner points out for us, entangled political economy, on the other hand, allows us to be consistent and use the same approach we use in economics also in political economy. Within an entangled political economy analysis, policy outcomes may very well be the “result of human action but not the execution of any human design” (Ferguson [1767] 1995, p. 119). So, within a traditional political economy approach “The theoretical antinomy results because political phenomena are treated as simple products of choice while economic phenomena are treated as complex products of

systemic interaction. To speak of systemic interaction is necessarily to speak of an order of organizations that is not reducible to some point-mass entity, other than by postulating that all observations pertain to equilibrium states. In contrast, the research program pursued here seeks to dissolve this antinomy by treating polity from the same scholarly orientation as economists treat economy. As an order, polity contains many organizations within its precincts, and with those organizations interacting both among themselves and with various organizations located within economy. While all organizations are oriented teleologically through plans, the resulting order emerges spontaneously through interaction among participants. Within polity there is no one organization that denotes polity, for polity is plural and not singular with respect to its organizational pattern” (Wagner 2012 p . 122).

The analyses of entangled political economy may therefore not necessarily be elegant linear models but rather complex representations of a network of interactions with higher explanatory power of reality. When approaching economics and politics with an entangled political economy angle, therefore, contextualization becomes central. An economic principle in a vacuum is fundamental to its own understanding. But to understand its actual functioning, we need to generate a situation where the principle is at work, which is to say, when it interacts with other systems of behavior and when it is permeable to other systems of knowledge.

This, in my understanding of Wagner, implies at least two things. First, in general, that the economic system generates a complex series of networks with all other systems, and the analysis of this complexity of networks and feedbacks allows for a deeper and more complete understanding of human actions compared to a more isolationist, linear, or unidirectional approach. Second, in particular, that within the analysis of the economy entangled with politics and other systems such as the law, morals, and science and technology, the focus should expand and include not only the interactions starting from the economy onto the other spheres, but also the interactions that have effects on the economy even if they originate elsewhere.

The appeal of entangled political economy, with both of these aspects, may be testified not just by the recent work of Wagner and his co-authors, but also by the long-lasting appeal of the work of Adam Smith, the 18th century Scottish father of our discipline. Smith is still marveled at and studied today because of the complexity and depth of his analysis. And his analysis is indeed not an imposition of a bridge between economics and politics as spheres of human conducts independent

from each other, or a link between the otherwise disconnected market and state, but an analysis of the complex network of relations between economics, politics, ethics, customs, law, and institutions. Smith indeed writes before disciplinary boundaries are neatly defined, when moral philosophy covered all of the contemporary social sciences and the study of one aspect of social life in isolation would not have been an obvious approach to take. Smith's analysis does not always start from the economy to end up into polity, but it also describes the complex web of interrelation of polity and economy. Furthermore, the economy is not entangled only with polity, but also with the law, and morals. And the results of these kinds of human actions are more often than not unintended. Smith's political economy is entangled political economy.

Adam Smith, indeed, analyzes the nature and causes of the wealth of nations by having a multiplicity of sources of motivation interacting with one other. The economy is always contextualized and it interacts with politics, ethics, and the law. Similarly each of these systems is presented as a network of relations with all the other systems. Studying how Adam Smith uses an entangled political economy approach helps us see how this approach can expand to several different spheres of human behavior: not just used for the entanglements of economics and politics, but also their entanglement with the law, morals, and science. If we take Smith seriously, therefore, we can use him to extend Wagner's analysis and we can use Wagner's analysis to better understand Smith's.

### Adam Smith

Let us now see how Adam Smith not only uses an entangled framework similar to the one that Richard Wagner describes, but that Smith also expands it and enriches it so that our understanding of human behavior may be more comprehensive. For the sake of simplicity I limit myself to the Smith's analysis in some parts of the *Wealth of Nations* (WN) (Smith [1776] 1981). I use The *Theory of Moral Sentiments* (TMS) (Smith [1759] 1984) and the *Lectures on Jurisprudence* (LJ) (Smith [1762-3, 1766] 1982) only sporadically and instrumentally and non-systematically. The inclusion of *The Theory of Moral Sentiments* (and of the *Lectures on Jurisprudence*) is an additional step that would corroborate the current analysis and increase the emphasis of how entangled human behavior is, but at this point would excessively complicate the analysis.

Following my understanding of Wagner's analysis, I point out how Smith explores the entanglements of the economy with the polity, and how the results of the complex nexus of relations between the polity and the economy may generate unintended results. While Wagner uses a negative shock to exemplify the extent of the knotted relations between polity and economy, Smith uses a positive shock. Additionally, Adam Smith seems to use the method that Wagner describes in a more extensive way than Wagner does at the moment. For Smith, the economy is entangled not just with the polity, but also with the law and with morality. And it is the interactions of *all* these nexuses that characterize human society.

I offer a couple of examples to explain how I see Adam Smith as an entangled political economist and how I see him as expanding entangled political economy analysis. I start by showing how in Smith the economy and the state are entangled, and how they are entangled in such a complex way to generate outcomes that none intended. I use the positive shock of the discovery of the New World. I then show how the economy and the law are entangled: the economy shapes the law just as the law shapes the economy. Similarly, I show how in Smith economy and morality are entangled, that is, how the economic affects moral just as much as the moral affects the economic.

### Smith's Invisible Hand as a Wagner's Marina

The first thing I would like to notice in fleshing out the entangled relations between politics and economics is the lack of independence of market and state in Smith. As Wagner points out, traditional political economy draws a bridge between two distinct spheres of behavior, while entangled political economy see these two spheres in continuous and porous interaction as testified by the complex nexus of their relations. When we look at Adam Smith and at his scholarship we can see an example of the difference between political economy and entangled political economy.

Adam Smith's most famous two words are the "invisible hand." More often than not, the invisible hand today is understood and presented as a claim for free market, where by free market it is generally implied a complete absence of political intervention in the market (Grampp 2000). This interpretation exposes Smith to a series of accusations or praises both from the left and from the right. It is often claimed that Smith does not believe in any regulation at all and this is why he believes in free markets. It is also often claimed that Smith believes in regulations and therefore he is



in favor of interventionism. These two positions seem to be irreconcilable, and are the sources of many debates (Viner 1927; Stigler 1971; Samuels 2011). Yet, if we use the entangled political economy approach, we can see why these readings of Smith may be both right and wrong. They are both right because it is true that Smith favors free markets, but it is also true that Smith favors political interventions in the market. They are both wrong because they assume Smith works with the same apparatus we do: that markets and state are separate and independent from each other.

For Smith, one cannot have a functioning market without the power of the state that guarantees and regulates property rights and contracts. And the enforcement of contract law makes little sense in a context with no markets. Markets and state are both necessarily present in the analysis and necessarily entangled. I believe Warren Samuels (2011) is correct in describing Smith, even if in a different context, as presenting the following view: “The market must be seen to be qualified in its operation by the impact of moral and legal rules and other institutions that are themselves a matter of choice and evolution. ... The order produced by markets can only arise if the legal and moral framework is operating well” (Samuels 2011, p. 47). And again: “Markets do not exist independently of mankind. Markets are a function of strategic actions of business people and firms, laws, and moral rules. Markets are like property, law, and morals: Each is simultaneously both a dependant and independent variable. Each, that is to say, is a function of the forces acting on and through it, and each influences those same forces” (Samuels 2011, p. 185).

Understanding Smith’s analysis of the invisible hand, of the invisible hand regulating the relations between markets and state, in this way, as a symbiotic nexus of entangled relationships, is not far from Wagner’s analysis of a marina.

A marina is an attractive place to go on vacation or just to spend a few days out of town. There are boats; there are restaurants, shops, hotels, piazzas. Wagner asks, for example, what determines the price of a hotel in that busy marina. The market? The state? Private interactions? Public interactions? In a sense, the answer is: all of the above. The price of the hotel is partially dependant on private enterprises and public enterprises, and an entangled relation of the two. The (market) price of a hotel is partly dependant on the quality of the (public) road that leads to it. In Wagner’s words: “For instance, you travel between the hotel in which you stay and the marina over roads that are built and maintained by governments. Among other things, the value of the hotel and the services it offers depends on the quality of the roads. Furthermore, the river on which the marina sits requires

periodic dredging by some government agency to prevent boats from running aground. The full set of activities that are undertaken within the town and its environs requires cooperation and coordination throughout an array of enterprises, private and public. That cooperation and coordination, moreover, is not that which we would recognize as a planned parade but rather resembles that of the divergent and interacting plans of the pedestrians passing through a piazza” (Wagner 2012, p. 127). Similarly, he describes a piazza with private street vendors and public sanitation and police. Mentioning recent work of Virgil Storr (2008), Wagner explains that the entanglement is unavoidable because both collective and market activities occupy the same societal space.

Just like Smith, Wagner tells us that markets in isolation do not exist. Markets are intertwined with state activities in a way that is difficult, if not impossible to separate. In addition, Wagner notices, that today considering markets in isolation may be an ineffective instrument because it tends to ignore a large part of our social and economic interactions: “The market-based theory of societal coordination, however, gives only an incomplete account of the full range of societal coordination. The domain of that incompleteness, moreover, is surely wider now when collective activity comprises a third to a half of all economic activity than when it comprised less than a tenth.” (Wagner 2012 p. 126)

### Unplanned results of Entangled Profit and Power

Another aspect of the entangled political economy we can see in Smith is the idea that the entanglement of the economy and polity is such that the desire for profits and the desire for power are knotted together, even if not always with positive consequences for society. Often the entanglement of economic profit and political power is difficult, if not impossible, to detangle. In Smith one can see that not just businesses lobby the government to expand themselves, but also that the government uses businesses to expand its power and the line that separate the two is blurred. And in all cases the results are more often than not unplanned, or, to use the sentence of Adam Ferguson ([1767] 1995) mentioned above, they are the results of human action but not of human design.

The idea of an entanglement of factors in determining social, political, and economic outcome in an unplanned manner is indeed one of the major contributions of the Scottish thinkers of the 18<sup>th</sup> century (Berry 1997). In a sense following Mandeville ([1732] 1988), Adam Smith is not dissimilar to Adam Ferguson ([1767] 1995), William Roberston ([1769] 1989), or John Millar ([1806] 2006) in their understanding of unplanned results of human interactions (Smith 2009), which Wagner brings back in the analysis.

Wagner sustains that an effective arena to see the entanglements of the entangled political economy is a crisis: “Though we maintain that entanglement is a relevant organizing framework during all periods of politico-economic activity, we argue that moments of crisis are particularly useful in demonstrating this relevance because crisis accelerates interaction between the two orders as demand for political responses increases in the wake of undesirable macro-outcomes (see Higgs 1987). Consequently, new relationships are formed across nodes as traditional boundaries are less respected” (Smith, Wagner, and Yandle 2011, p. 51). He uses the reactions to the 2008 crisis as an example. Some big businesses more or less in need enable the government to expand its powers and the government crave for power enables some big businesses to gain privileges.

Adam Smith does not face nor does he describe major negative shocks to the economy. Yet, in his words we find major shocks to the economy. The discovery of the New World is a shock to the economy, even if a positive one, in most of the cases. We can use the discovery of the New World as a parallel to see how it may be possible to expand the analysis that Wagner started. In this sense Smith’s analysis completes the analysis of entangled political economy of Smith, Wagner, Yandle (2011).

In Smith, the examples of big businesses and manufacturers obtaining privileges from the government are numerous and well described in the literature (Evensky 2005). But what are also numerous are the simultaneous examples of the government using big businesses to expand its power. The colonial policies are an example of this complex entanglement of polity and economics. Basically all the colonial expansions in modern time, according to Smith, seem to be due to an entanglement of search for power and search for profits, from the conquests of Columbus to the management of the East India Company. The Crown of Spain continued funding Columbus’s search for Eldorado in exchange not only for half of the gold found but also for possession of the new territories, while Columbus sought Spanish support for his search for profits and glory (WN

IV.viii.a.15, p. 51). Britain subsidized and gave privileges to the East India Company to expand its empire in the east as the East India Company searched for government's protection of its privileges (WN IV.i.e. 26-29, pp. 746-754).

Interestingly, Smith states that the consequences of the dynamics between the economy and the polity in the colonies are unplanned and unpredictable, just like Wagner suggests the consequences of entangled political economy tend to be. Wagner indeed claims: "As agreements are reached, statutes modified, and regulations written, a package of outcomes emerges that no one has chosen, not even senior members of the legislative and executive branches of government. Each participant pursues opportunities for gain within a networked system of complex interaction where the overall outcome is not a product of intentional choice" (Smith, Wagner, and Yandle 2011, p. 48). And toward the conclusion of the chapter "On the Motives for establishing new Colonies," Smith tells us something quite similar: how entangled and how unpredictable the colonial power is. Indeed "A project of commerce to the East Indies, therefore, gave occasion to the first discovery of the West. A project of conquest gave occasion to the establishment of the Spaniards in those newly discovered countries. The motive which excited them to this conquest was a project of gold and silver mines; and the course of accidents, which no human wisdom could foresee, rendered this project much more successful than the undertakers had any reasonable ground for expecting" (WN IV.vii.b.21, p. 564).

While Smith is famous, correctly or not, for the positive unintended consequences of human actions within the economy, the unintended consequences of the entanglement of the desire for power and the desire for profits, of the polity and of the economy, may not always be positive. Indeed they may be quite negative, if not fatal. The policies resulting in the long run from the development of the discovery and conquest of the new world are an example of how damaging this entanglement can become. The following lengthy paragraph is worthy citing in full due to the power of Smith's description:

"The monopoly of the colony trade besides, by forcing towards it a much greater proportion of the capital of Great Britain than what would naturally have gone to it, seems to have broken altogether that natural balance which would otherwise have taken place among all the different branches of British industry. The industry of Great Britain, instead of being accommodated to a great number of small markets, has been principally suited to one great market. Her commerce, instead of running in

a great number of small channels, had been taught to run principally in one great channel. But the whole system of her industry and commerce had thereby been rendered less secure; the whole state of her body politick less healthful, than it otherwise would have been. In her present condition, Great Britain resembles one of those unwholesome bodies in which some of the vital parts are overgrown, and which, upon that account, are liable to many dangerous disorders scarce incident to those in which all the parts are more properly proportioned. A small stop in that great blood-vessel, which had been artificially swelled beyond its natural dimensions, and through which an unnatural proportion of the industry and commerce of the country had been forced to circulate, is very likely to bring on the most dangerous disorders upon the whole body politick. The expectation of a rupture with the colonies, accordingly, has struck the people of Great Britain with more terror than they ever felt for a Spanish armada, or a French invasion. ... The blood, of which the circulation is stopt in some of the smaller vessels, easily disgorges itself into the greater, without occasioning any dangerous disorder; but when it is stopt in any of the greater vessels, convulsions, apoplexy, or death, are the immediate and unavoidable consequences.” (WN IV.vii.c.43, pp. 604-605)

Smith’s analysis is parallel to Wagner’s when Wagner notices that: “On a conceptual level, Jane Jacobs (1992) describes societal processes that evolve through interaction between institutional carriers of two distinct moralities, which she describes as the commercial and the guardian moral syndromes. A central feature of her analysis is the treatment of some of the debilitating qualities of certain patterns of entanglement, and which she describes as “monstrous moral hybrids” (Smith, Wagner, and Yandle 2011, p. 48).

### Entangled law: Stage Theory as a Theory of Entanglement

Let us now look at how Smith analyzes the interaction between the economy and other systems of behaviors. Let us start from how Smith describes the interaction of the law and the economy. Here again, the relations are complex and not unidirectional. Following Montesquieu ([1748] 1989) and possibly Voltaire ([1733] 1999) and followed by Millar ([1806] 2006), Adam Smith tells us that, as societies develop more complex social and economic ties, their legal systems also increase in complexity (Berry 1997; Smith 2006). In different stages of development, “the laws and regulations with regard to property must be very different” (LJ: 1.33, p. 16).

A nomadic population will not need a complex legal system, and especially not a complex legal system based on property law like one would need in a society where commerce is the predominant form for the generation of wealth. There is not much private property in a nomadic economy, while there is lots of it in a commercial economy. A commercial society, with complex and multiform needs to transfer property, will have a more complex legal system based on property law and on the transfer of property (Berry 1997).

In the earliest stages of economic development, Smith indeed tells us, “[f]ew laws or regulations will (be) requisite ..., and these will not extend to nay great length, or be very rigorous in the punishments annexed to any infringement of property” (LJ: 1.33, p. 16). But “when flocks and herds come to be reared property then becomes of a very considerable extent; there are many opportunities of injuring one another and such injuries are extremely pernicious to the sufferer. In this state many more laws and regulations much take place; theft and robbery being easily committed, will of consequences be punished with the utmost rigor. In the age of agriculture, they are not perhaps so much exposed to theft and open robbery, but then there are many ways in which property may be interrupted as the subjects of it are considerably extended. The laws therefore tho perhaps not so rigorous will be of a far greater number than amongst a nation of shepherds. In the age of commerce, as the subjects of property are greatly increased the laws must be proportionally multiplied. The more improved any society is and the greater length the several [sic] means of supporting the inhabitants are carried, the greater will be the number of their laws and regulations necessary to maintain justice, and prevent infringements of the right of property” (LJ: 1.33-4, p. 16)

The stage of economic development has, for Smith, shaped the development of the legal system. But what is interesting is that the analysis Smith gives us does not stop here. While it is true that an economic system affects its legal system it is also true that a legal system affects its economic system. It is a complex entangled relationship that shapes the actual condition of a society.

Historically, the advent of commerce and commercial society brought about good governance and a fully developed legal system. But at the same time, the stability of the legal system allowed for commercial societies to flourish (WN III).

The most striking example of this entangled interrelation between the economy and the law is Smith’s analysis of the three different kind of economic systems: the stationary, the progressive, and the declining economic systems. What characterizes each system is its level of economic growth.

Smith uses the state of population growth as a proxy to evaluate economic growth. For Smith, it is the legal system that helps determining each economic state, more than the natural resources, or the technology available, or other natural variables. The law is entangled with the economy so that economy may affect the law but at the same time the law plays a major role in determining the economic conditions.

China is “one of the richest, that is, one of the most fertile, best cultivated, most industrious, and most populous countries in the world,” (WN I.viii.24, 89) but its laws are oppressive. Its population and its economy stagnate. The American colonies on the other hand are blessed with the “genius of the British constitution” (WN I.viii.26, 91) and have an expanding economy and population. So much so that a widower with several children is “frequently courted as a sort of fortune” (WN I.viii.23, 88) and is able to remarry immediately because her children are considered a valuable asset. Bengal, on the other hand, is the tragic example of the effects of bad laws on the economy. Bengal succumbed to mercantilist law which promoted monopolistic trade. Bengal, a fertile land which can support a large population sees a continuous population decline due to famine: “[Bengal is] a fertile country which had before been much depopulated, where subsistence, consequently, should not be very difficult, and where, notwithstanding, three or four hundred thousand people die of hunger in one year” (WN I.viii.25, 91).

### Entangled Morality

The economy for Smith, like any other system that motivates human behavior, generates a complex nexus of relations because of its interactions with other systems such as morality. Smith shows us the economy affects morality and at the same time morality affects the economy in a complex interactive way. Smith, like (Montesquieu [1748] 1989), but not identically, believes in the *doux commerce*, that is that commerce softens the spirits of people, making them more humane and compassionate. So for example, the development of commerce enables the abandonment of the practice of infanticide because it grows to be considered morally repugnant (WN intro.4, 10 and WN I.viii.24, 90). The development of commerce enables also honesty to flourish and to become a habit. “Whenever commerce is introduced into any country, probity and punctuality always

accompany it. These virtues in a rude and barbarous country are almost unknown. Of all the nations in Europe, the Dutch, the most commercial, are the most faithful to their word. The English are more so than the Scotch, but much inferior to the Dutch, and in the remote parts of this country they <are> far less so than in the commercial parts of it. [...] A dealer is afraid of losing his character, and is scrupulous in observing every engagement. When a person makes perhaps 20 contracts in a day, he cannot gain so much by endeavouring to impose on his neighbours, as the very appearance of a cheat would make him lose. Where people seldom deal with one another, we find that they are somewhat disposed to cheat, because they can gain more by a smart trick than they can lose by the injury which it does their character. [...] When the greater part of people are merchants they always bring probity and punctuality into fashion, and these therefore are the principal virtues of a commercial nation”(LJ (B) 326-328, p. 538-539). This lays out enabling conditions for economic development and growth. Yet, the prosperity now generated may in its turn generate perverse incentives, which in their turn would hinder economic development and growth.

Smith tells us indeed that large profit opportunities, such as the ones emerging from the government granting monopoly powers to some merchants in commercial societies, generate incentives for immoral behaviors which in their turn generate economic consequences which happen to be degenerative and destructive for the economy. Some big merchants and manufacturers, attracted by the rents that the government offers, disregard morality to increase their profits thanks to the establishment and the maintenance of monopolistic privileges (Paganelli 2009).

For Smith: “to hurt in any degree the interest of any one order of citizens, for no other purpose but to promote that of some other, is evidently contrary to that justice and equality of treatment which the sovereign owes to all the different orders of his subjects” (WN IV.viii.30, p. 654). But this is exactly what the government monopolies give incentives to do. Merchants behave in an unjust way because “the interest of the home-consumer had been sacrificed to that of the producer ... a great empire has been established for the sole purpose of raising up a nation of customers who should be obliged to buy from the shops of our different producers, all the goods with which these could supply them. For the sake of that little enhancement of price which this monopoly might afford our produces, the home-consumers have been burdened with the whole expense of maintaining and defending that empire” (WN IV.viii.53, p. 661).



The entanglement of (im)morality and economy generates cruelty as Smith explains: “But the cruelest of our revenue laws, I will venture to affirm, are mild and gentle, in comparison of some of those which the clamour of our merchants and manufacturers had extorted from the legislature, for the support of their own absurd and oppressive monopolies. Like the laws of Draco, these laws may be said to be all written in blood” (WN IV.viii.17, 648), as well as causing disruption to an unplanned extent.

We can learn from Smith, therefore, that economy and morality are entangled in a complex nexus of relationships. The economic conditions may affect the moral code just like a moral code may affect the economic conditions of the individual and society and their relationship may not be a simple one. It may not be by accident that recent works on the morality of markets, that is of the complex of interactions and mutual influences between markets and morality, are done by scholars (such as Yandle 1983, McCloskey 2006, Zak and Jensen 2008) who are deep admirers of Adam Smith.

#### Conclusions:

Entangled political economy is an approach to analyzing the relations between polity and economy which implies a complex nexus of relations between the two spheres or human behaviors. Looking at Adam Smith helps expand this approach and see its potentials for explaining human behaviors and institutions.

Smith integrates the current literature which presents an analysis of a negative shock to society and by looking at how the economy is entangled with the polity. Adam Smith also adds the possibility of seeing the unintended consequences of the complex nexus of interactions of polity and economy in a positive shock to society, such as the discovery and conquest of the New World. Smith offers the understanding that the economy is entangled not only with the polity, but also with the law, and with morals. For Smith the relation between the economy and the other systems that affect human conduct is a complex one, based on several simultaneous layers of interactions. So when we wish to understand political economy we should consider that the economy interacts with the polity and also, simultaneously, with the law and with morality.

Using Smith to expand the understanding of an entangled political economy helps us understanding human behavior which therefore implies studying not just these different systems independently from one other, but also, and maybe in particular, their relations and interactions with each others.

## REFERENCES

### Bibliography

- Berry, Christopher J. 1997. *Social Theory of the Scottish Enlightenment*. Edinburgh: Edinburgh Univ. Press.
- Besley, Timothy. 2007. "The New Political Economy." *The Economic Journal* 117 (524): F570-F587.
- Boettke, Peter J. and Christopher J. Coyne. 2003. "Entrepreneurship and Development : Cause Or Consequence?" *Advances in Austrian Economics* 6: 67-87.
- Boettke, Peter J. and Edward J. Lopez. 2002. "Austrian Economics and Public Choice." *Review of Austrian Economics* 15 (2-3): 111-119.
- Evensky, Jerry. 2005. *Adam Smith's Moral Philosophy*. New York, NY: Cambridge University Press.
- Ferguson, Adam. [1767] 1995. *An Essay on the History of Civil Society / Adam Ferguson ; Edited by Fania Oz-Salzberger* Cambridge ; New York : Cambridge University Press, 1995.
- Grampp, William D. 2000. "What did Smith Mean by the Invisible Hand?" *The Journal of Political Economy* (3): 441.
- Jacobs, Jane. 1992. *Systems of Survival : A Dialogue on the Moral Foundations of Commerce and Politics*. New York: Random House.
- Mandeville, Bernard. [1732] 1988. *The Fabel of the Bees: Or, Private Vices, Publick Benefits. Edited by F. B. Kaye*. Indianapolis: Liberty Fund.
- McCloskey, Deirdre N. 2006. *The Bourgeois Virtues : Ethics for an Age of Commerce*. Chicago: University of Chicago Press.
- Millar, John. [1806] 2006. *The Origin of the Distinction of Ranks, Or, an Inquiry into the Circumstances which Give Rise to Influence and Authority, in the Different Members of Society / John Millar ; Edited and with an Introduction by Aaron Garrett* Indianapolis, Ind. : Liberty Fund, c2006.

- Montesquieu, Charles de Secondat. [1748] 1989. *The Spirit of the Laws*. Cambridge New York: Cambridge University Press.
- Paganelli, Maria Pia. 2009. "Approbation and the Desire to Better One's Condition in Adam Smith : When the Desire to Better One's Condition does Not Better One's Condition and Society's Condition . ." *The History of Economics Society Bulletin* 31 (1): 79-92.
- Persson, Torsten and Guido Tabellini. 2004. "Constitutions and Economic Policy." *The Journal of Economic Perspectives* 18 (1): 75-98.
- Robertson, William. [1769] 1989. *The History of the Reign of the Emperor Charles V : With a View of the Progress of Society in Europe, from the Subversion of the Roman Empire, to the Beginning of the Sixteenth Century..* Harper & Brothers.
- Samuels, Warren J. 2011. *Erasing the Invisible Hand : Essays on an Elusive and Misused Concept in Economics*. New York: Cambridge University Press.
- Smith, Adam. [1776] 1981. *An Inquiry into the Nature and Causes of the Wealth of Nations*. Indianapolis: Liberty Classics.
- . [1762-3, 1766] 1982. *Lectures on Jurisprudence.*, edited by Ronald L. Meek, David Daiches Raphael and Peter Stein. The Glasgow Edition of the Works and Correspondence of Adam Smith ed. Indianapolis: Liberty Fund.
- . [1759] 1984. *The Theory of Moral Sentiments*. Indianapolis: Liberty Classics.
- Smith, Adam, Richard E. Wagner, and Bruce Yandle. 2011. "A Theory of Entangled Political Economy, with Application to TARP and NRA." *Public Choice* 148 (1-2): 45-66.
- Smith, Craig. 2006. *Adam Smith's Political Philosophy : The Invisible Hand and Spontaneous Order*. London: Routledge.
- . 2009. "The Scottish Enlightenment, Unintended Consequences and the Science of Man." *Journal of Scottish Philosophy* 7 (1): 9-28.
- Stigler, George J. 1971. "Smith's Travels on the Ship of State." *History of Political Economy* 3 (2): 265-277.
- Storr, Virgil H. 2008. "The Market as a Social Space: On the Meaningful Extraeconomic Conversations that can Occur in Markets." *Review of Austrian Economics* 21 (2-3): 135-150.
- Viner, Jacob. 1927. "Adam Smith and Laissez Faire." *The Journal of Political Economy* (2): 198.
- Voltaire. [1733] 1999. *Letters Concerning the English Nation / Voltaire ; Edited with an Introduction and Notes by Nicholas Cronk* Oxford ; New York : Oxford University Press, 1999.

- Wagner, Richard E. 2006. "Choice, Catallaxy, and just Taxation : Contrasting Architectonics for Fiscal Theorizing." *Social Philosophy Policy* 23 (2): 235-254.
- . 2012. *Deficits, Debt, and Democracy : Wrestling with Tragedy on the Fiscal Commons*. Cheltenham: Edward Elgar Publishing.
- . 2007. *Fiscal Sociology and the Theory of Public Finance : An Exploratory Essay*. Cheltenham, UK Northampton, MA: Edward Elgar.
- Yandle, Bruce. 1983. "Baptists and Bootleggers: The Education of a Regulatory Economist." *Regulation* 7 (3): 12-16.
- Zak, Paul J. and Michael C. Jensen, eds. 2008. *Moral Markets : The Critical Role of Values in the Economy*. Princeton: Princeton University Press.